

Message Text

PAGE 01 KINSHA 07840 181553Z

46

ACTION AF-08

INFO OCT-01 ISO-00 OPR-02 SS-15 SSO-00 CCO-00 /026 W

----- 083162

O P 181440Z SEP 76 ZFF-1

FM AMEMBASSY KINSHASA

TO AMEMBASSY PRETORIA NIACT IMMEDIATE

INFO SECSTATE WASHDC PRIORITY 9661

LIMITED OFFICIAL USE KINSHASA 7840

PRETORIA PASS SECRETARY'S PARTY

E.O. 11652: N/A

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: SECRETARY'S VISIT TO KINSHASA

REF: (A) SECTO 27175; (B) KINSHASA 7835(NOTAL;

SECSTATE 230804 (NOTAL)

1. REF C ADVISED EMBASSY THAT TOUMAYAN WOULD ARRIVE AT 0910
SEPT. 20. WE HAVE MADE HOTEL RESERVATIONS BUT STILL
AWAITING REPLY REQUESTED VIA REF (B) RECONFIRMATION THAT TOYMAYAN
DOES HAVE VALID ZAIRIAN VISA.
CUTLER

LIMITED OFFICIAL USE

CONFIDENTIAL

PAGE 01 KINSHA 07840 02 OF 03 181613Z

65

ACTION AF-08

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 L-03 AGR-05 AGRE-00 DODE-00 /086 W

----- 083417

R 181300Z SEP 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 9659

C O N F I D E N T I A L SECTION 2 OF 3 KINSHASA 7840/2

44 MILLION, A 14 PERCENT INCREASE DURING THE SAME PERIOD PRICES INCREASED BY AT LEAST 50 PERCENT, IMPLYING A SHARP CONTRACTION IN THE REAL CREDIT AVAILABLE TO THE ECONOMY. TIGHT CREDIT HAS SLOWED BUSINESS ACTIVITY AND HAS HAD A PARTICULARLY ADVERSE EFFECT ON DE-RADICALIZED BUSINESSES, MANY OF WHICH CAME OUT OF RADICALIZATION IN POOR FINANCIAL SHAPE. IN THE PHARMACEUTICAL INDUSTRY, FOR EXAMPLE, MANY FIRMS, LACKING COMPENSATION FROM THE GOZ FOR DRUGS USED UP WHILE THEIR OPERATIONS WERE UNDER GOVT CONTROL, NOW FIND THEMSELVES UNABLE TO RAISE THE CASH TO REPLENISH THEIR STOCKS. AS A RESULT, THE SUPPLY OF PHARMACEUTICALS HAS BEEN CONSTRICTED. THE CREDIT RESTRICTIONS HAVE HAD A STRONG EFFECT EVEN IN ISOLATED RURAL AREAS. AN AID FIELD TEAM IN NORTH SHABA FOUND THAT THE MIDDLEMEEN WHO TRADITIONALLY BUY GRAIN AT THE FARM-GATE AND ELIVER IT TO THE MARKET HAVE NOT BEEN ABLE TO BORROW ENOUGH TO FINANCE THEIR BUYING OPERATIONS THIS YEAR.

6. DEBT RESCHEDULING AND RELATIONS WITH CREDITORS: THE BALANCE OF PAYMENTS AND BUDGETARY TARGETS OF THE STABILIZATION PROGRAM COULD NOT BE MET UNLESS ZAIRE GAINED SHORT TERM RELIEF ON THE PAYMENT OF ITS FOREIGN DEBT. IN THE LONG RUN, HOWEVER, THE NEW FOREIGN CAPITAL NECESSARY FOR A COMPLETE ECONOMIC RECOVERY WOULD NOT BE FORTHCOMING UNLESS ZAIRE'S RELATIONS WITH CREDITORS WERE REGULARIZED. ZAIRE'S STRATEGY WAS TO ACCOMPLISH BOTH OBJECTIVES BY NEGOTIATING A DEBT RESCHEDULING AGREEMENT WITH ITS CREDITORS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 07840 02 OF 03 181613Z

ALTHOUGH ZAIRE HAS RELIEVED ITSELF OF A MAJOR SHARE OF ITS 1976 DEBT SERVICE BURDEN BY DEFACTO NON-PAYMENT DURING THE FIRST SEMESTER OF 1976 AND THROUGH A NEGOTIATED AGREEMENT FOR THE SECOND HALF OF 1976, IT HAS NOT YET SUCCEEDED IN WINNING THE CONFIDENCE OF ITS CREDITORS. INITIALLY THE GOZ FAILED TO SET ASIDE 10 PERCENT OF ITS EXPORT REVENUES FOR DEBT SERVICE AS IT HAD PROMISED CREDITORS IT WOULD DO. LATER, THE GOZ'S FAILURE TO KEEP MAJOR CREDITORS ADVISED OF ITS PLANS ENGENDERED CONSIDERABLE SUSPICION OF ITS INTENTIONS. THE JUNE DEBT RESCHEDULING AGREEMENT WAS UNDENIABLY A SHORT TERM TACTICAL SUCCESS FOR THE GOZ. HOWEVER, IT INCREASINGLY APPEARS THAT ZAIRE WILL BE UNABLE TO HONOR THE TERMS OF THIS HASTILY CONCEIVED AND APPROVED AGREEMENT. THE BILATERAL AGREEMENTS REQUIRED TO IMPLEMENT IT HAVE YET TO BE NEGOTIATED.

7. THE GOZ'S FIRST MEETING WITH PRIVATE CREDITORS WAS HELD IN LONDON ON SEPT 2, 1976. THIS WAS PRIMARILY A MEETING HELD TO FACILITATE THE EXCHANGE OF DEBT INFORMATION BETWEEN ZAIRE AND ITS

CREDITORS. THE CREDITORS WERE REPORTEDLY IMPRESSED BY THE PRESENTATION OF THE GOZ REP, BANK OF ZAIRE GOV SAMBWA, BUT WERE NON-COMMITAL REGARDING THE GENEROUS (TO ZAIRE) RESCHEDULING FORMULA SAMBWA PROPOSED. CREDITORS SUSPICION OF ZAIRE'S INTENTIONS AND ITS CAPACITY TO MEET EXTERNAL DEBT PAYMENTS HAS ENSNARED EFFORTS TO OBTAIN NEW CREDITS FROM EXIMBANK FOR GECAMINES AND FOR

FINANCING THE COST OVERRUN ON THE INGA-SHABA LINE.

8. GOZ BUDGET PERFORMANCE: DEVALUATION WAS TO HAVE BOOSTED GOZ REVENUES BUT THESE REVENUES DID NOT INCREASE AS QUICKLY OR AS DRAMATICALLY AS HAD BEEN HOPED. CUSTOMS REVENUES FELL FAR SHORT OF TARGETS, LARGELY BECAUSE THE VOLUME OF IMPORTS AND EXPORTS WAS LOWER THAN HAD BEEN ANTICIPATED. FURTHERMORE, THE GOZ WITH THE APPROVAL OF THE IMF, IN A MOVE TO SOFTEN THE INITIAL IMPACT OF DEVALUATION, ALLOWED CONSIDERABLE QUANTITIES OF FOOD-STUFFS TO BE BROUGHT INTO THE COUNTRY AT THE PRE-DEVALUATION EXCHANGE RATE, THUS DEPRIVING ITSELF OF INCREASED CUSTOMS REVENUES. IN JUNE (THE LAST MONTH FOR WHICH COMPLETE DATA IS AVAILABLE) REVENUES DID INCREASE SHARPLY BUT IT IS UNLIKELY THAT THIS INCREASE CAN BE SUSTAINED FOR THE REST OF THE YEAR. TO ILLUSTRATE THESE POINTS THE FOLLOWING TABLE COMPARES THE AVERAGE MONTHLY REVENUES ACHIEVED DURING THE FIRST SEMESTER OF 1976:

PLANNED GOZ 1976 BUDGET ACTUAL GOZ PERFORMANCE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KINSHA 07840 02 OF 03 181613Z

1ST SEMESTER 1976

RECEIPTS IN ZAIRE

(MILLIONS)	51	39.7
OF WHICH		
(CUSTOMS)	(28)	(15.4)
(TAXES)	(21)	(19.8)
(OTHER)	(2)	(4.4)

DURING THE FIRST SEMESTER CUSTOMS REVENUES FELL SHORT OF PROJECTIONS BY ABOUT ZAIRE 12 MILLION/MONTH. SHOULD THIS TREND CONTINUE FOR THE REST OF THE YEAR, THE GOZ WOULD SUFFER A REVENUE SHORTFALL OF OVER Z140 MILLION FOR THE YEAR. RESTRAINT IN GOVT SPENDING HAS BEEN SEEN AS ESSENTIAL, BOTH TO CURB IMPORT DEMAND AND TO SHIFT RESOURCES TO THE MORE PRODUCTIVE EXPORT SECTOR. FOR THE FIRST SEMESTER OF 1976, GOVT SPENDING HAS BEEN CUT FROM THE LEVELS OF THE PREVIOUS TWO YEARS AND IS RUNNING ONLY 8 PERCENT OVER THE LEVELS CALLED FOR IN THE GOZ BUDGET. UNFORTUNATELY, THESE CUTS HAVE BEEN DISTRIBUTED IN SUCH A WAY AS TO BRING A SERIOUS DETERIORATION OF PUBLIC SERVICES (EG SCHOOL OPENINGS HAVE BEEN DEAYED BECAUSE GOVT REPORTEDLY DOES NOT HAVE THE FUNDS TO PAY TEACHERS' SALARIES) WHILE SPENDING PROCEEDS APACE ON PRESTIGE PROJECTS SUCH AS THE WORLD TRADE CENTER. PRESIDENCY SPENDING IS RUNNING 393 PERCENT OVER THE BUDGET AND THE SYSTEM OF BUDGETARY ENDOWMENTS (DOTATION) TO THE PRESIDENCY AND THE EXECUTIVE COUNCIL HAS CONTINUED LONG AFTER THE STABILIZATION CAOMMITTEE CALLED FOR ITS ABOLITION. GOVT OVER SPENDING MAY TURN OUT TO BE CONSIDERABLY GREATER THAN THE 8 PERCENT NOTED ABOVE ONCE ACCOUNT IS TAKEN OF UNPAID GOZ OBLIGATIONS WHICH DO NOT ENTER INTO THE BUDGET FIGURES AVAILABLE TO THE EMBASSY. WE ESTIMATE THAT OVERSPENDING, TOGETHER WITH THE ESTIMATED Z140 MILLION IN REVENUE SHORTFALLS, WILLRESULT IN A 1976 BUDGET DEFICIT OF Z200-300 MILLION -- ON THE ORDER OF 1975'S POOR PERFORMANCE.

9. BALANCE OF PAYMENTS: SINCE THE 1975 IMPORT LEVEL WAS AUSTERE ENOUGH TO CONSTRICT THE FLOW OF RAW MATERIALS AND CAPITAL EQUIPMENT TO ZAIRIAN INDUSTRY, THE STABILIZATION PROGRAM DID NOT PRESCRIBE A SHARP CUT IN IMPORTS FOR 1976 RATHER THE OBJECT WAS TO HOLD IMPORTS ROUGHLY CONSTANT AND TO USE IMF SUPPLEMENTARY CREDITS TO BRIDGE THE BALANCE OF PAYMENTS GAP. UNFORTUNATELY THE IMF OVERESTIMATED ZAIRE'S EXPORT RECEIPTS, LEAVING A FURTHER GAP. THIS GAP WAS NOT FINANCED BY OUTSIDE ASSISTANCE AND, AS A RESULT, IMPORTS HAVE BEEN CONTRICTED TO LEVELS FAR BELOW THAT
CONFIDENTIAL
CONFIDENTIAL

PAGE 04 KINSHA 07840 02 OF 03 181613Z

NECESSARY TO SUPPORT A STABLE ECONOMY.

10. ON THE OTHER HAND, ZAIRE'S DEFICIT ON SERVICES IS MUCH GREATER THAN PREVIOUS ESTIMATES. PART OF THIS IS ACCOUNTED FOR BY INCREASED REFINING CHARGES FOR COPPER BUT WHEN COMBINED WITH THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 01 KINSHA 07840 03 OF 03 181558Z

65

ACTION AF-08

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 L-03 AGR-05 AGRE-00 DODE-00 /086 W
----- 083194

R 181300Z SEP 76

FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 9660

C O N F I D E N T I A L SECTION 3 OF 3 KINSHASA 7840/3

NUMEROUS LOCAL RUMORS OF LARGE CURRENCY TRANSFERS OUTSIDE OF ZAIRE BY HIGHLY PLACED GOZ OFFICIALS, THE LARGE SERVICES DEFICIT GIVES RISE TO CONCERN THAT CAPITAL FLIGHT MAY NOW BE A SERIOUS DRAIN ON THE BALANCE OF PAYMENTS.

11. CONCLUSION: THE GOZ HAS DEVOTED CONSIDERABLE ENERGY TOWARDS IMPLEMENTING THE STABILIZATION PROGRAM BUT AT THE END OF SIX MONTHS THE OVERALL RECORD OF RESULTS REMAINS SOMEWHAT DISAPPOINTING. IN PART, THESE DISAPPOINTMENTS RESULT FROM OVERLY HIGH EXPECTATIONS. THE IMF, FOR EXAMPLE, OVERESTIMATED ZAIRE'S 1976 EXPORTS WHICH HAS THE EFFECT OF CREATING UNDULY FAVORABLE EXPECTATION FOR THE

BALANCE OF PAYMENTS AND GOVT REVENUE. FURTHERMORE, IT MUST BE REMEMBERED THAT THE POLITICAL COSTS OF MANY OF THE POLICIES OF THE STABILIZATION HAVE CAUSED THE GOZ TO MOVE AHEAD RATHER CAUTIOUSLY. FOR EXAMPLE, THE SLOWNESS IN ALLOWING NECESSARY PRICE HIKES WAS BASED ON WELL FOUNDED ANXIETY OVER POSSIBLE UNREST THEY MIGHT PRODUCE. INDEED, MOBUTU HAS HAD TO GO SO FAR AS TO BRING IN THE ARMY TO QUELL DISTURBANCES RESULTING FROM INCREASING PRICES UNMATCHED BY EQUALLY LARGE WAGE INCREASES.

12. NEVERTHELESS, THERE ARE ASPECTS OF THE IMPLEMENTATION OF THE STABILIZATION WHERE GOZ EFFORTS WERE SUB-PAR AND COULD CLEARLY BE IMPROVED GREATLY. THE TWO MOST SIGNIFICANT ARE THE CONTROL OVER THE ALLOCATION OF BUDGETARY RESOURCES AND CONTROL OVER THE
CONFIDENTIAL
CONFIDENTIAL

PAGE 02 KINSHA 07840 03 OF 03 181558Z

ALLOCATION OF FOREIGN EXCHANGE. WE HAVE NOTED THAT REVENUE SHORTFALL RATHER THAN OVERSPENDING PER SE HAS BEEN THE MOST SIGNIFICANT CAUSE OF THE GOZ BUDGETARY DEFICIT. NEVERTHELESS, THE MANNER IN WHICH SPENDING HAS BEEN CUT HAS SERIOUSLY UNDERMINED IMPLEMENTATION OF THE STABILIZATION PROGRAM. WHILE MANY PROGRAMS IN AGRICULTURE AND EDUCATION HAVE BEEN STARVED FOR FUNDS, THE SPENDING OF THE PRESIDENCY HAS FAR EXCEEDED ITS BUDGET. IN THE FOREIGN EXCHANGE ALLOCATION PROCESS THERE IS A SIMILAR INABILITY TO STICK TO ESTABLISHED PRIORITIES. THE OVERALL LEVEL OF IMPORTS IS NOT EXCESSIVELY HIGH. ON THE CONTRARY, IT IS TOO LOW TO SUPPORT A STABLE ECONOMY. AT LEAST SOME OF THE DIFFICULTY APPEARS TO BE THAT SCARCE FOREIGN EXCHANGE IS BEING OBTAINED BY POLITICALLY INFLUENTIAL PERSONALITIES EITHER FOR THE IMPORTATION OF NON-PRIORITY GOODS OR FOR TRANSFER TO OVERSEAS ACCOUNTS. WHILE WE CANNOT DOCUMENT ANY CASES FULLY, THE FIGURE WE HAVE AVAILABLE LENDS SUPPORT TO THIS INTERPRETATION.
CUTLER

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 16 SEP 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KINSHA07840
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D760353-0748
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t197609108/baaaeslj.tel
Line Count: 254
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2004 by MartinML>; APPROVED <10 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: OVIP, (KISSINGER, HENRY A)
To: PRETORIA NIACT INFO STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006